

Uses of the Literary Fund for Public Education

**Presented to the Senate Finance Committee
Education Subcommittee**

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Briefing Topics

- Literary Fund
 - History of Direct Loans
 - Status of First Priority Waiting List
 - FY14-FY16 Revenues and Proposed Expenditures
 - Transfers for Teacher Retirement
 - Interest Rate Subsidy Program
- Virginia Public School Authority (VPSA) Grant Programs (debt service paid from LF)
 - Educational Technology Grants: *SOL Web-based Technology Initiative* and *e-Learning Backpack Initiative*
 - School Security Equipment Grants
- Appendices



Literary Fund - Background

- The Literary Fund is a permanent and perpetual school fund that began in 1810 and was later established in the *Constitution of Virginia. Code of Va.* provisions and Board of Education regulations set out specific requirements on the Fund.
- Revenues to the Literary Fund primarily from criminal fines, fees, and forfeitures, sale of unclaimed and escheated property, repayments of prior Literary Fund loans, and the transfer of unclaimed lottery prizes.
- Typically used to provide low-interest loans for school construction, grants under the interest rate subsidy program, debt service for educational technology notes, and the state's share of teacher retirement required by the SOQ.



Direct LF Loans Released by Year

- Since FY83, a total of \$958.4 million has been provided in direct Literary Fund loans to school divisions. The chart below reflects the release of these loans by fiscal year.

<u>Fiscal Year</u>	<u>Projects Funded</u>	<u>Fiscal Year</u>	<u>Projects Funded</u>
1983	\$41,917,922	1997	\$67,163,679
1984	\$13,090,500	1998	\$78,254,001
1985	\$40,425,600	1999	\$111,271,391
1986	\$32,768,391	2000	\$99,576,079
1987	\$64,951,999	2001	\$117,794,506
1988	\$36,212,656	2002	-0-
1989	\$68,865,889	2003	-0-
1990	\$22,158,479	2004	-0-
1991	\$16,374,400	2005	-0-
1992	-0-	2006	-0-
1993	-0-	2007	\$24,000,000 ¹
1994	-0-	2008	\$51,500,000
1995	\$23,186,074	2009-2014	-0-
1996	\$48,888,628		



¹Reflects the total amount of direct loans released by the Board of Education minus the loans returned by school divisions once they have opted out of all or part of a loan.

Status of the First Priority Waiting List

- As of Jan. 2014, the First Priority Waiting List consisted of 41 projects totaling \$207.5 million in loan requests (see *appendix*).
- The project that has been on the FPWL for the longest period of time was placed there in July 2007.
- Several projects on the FPWL the last few years instead were funded through the federal QSCB program, VPSA pool financing, or local financing.



FY14 - FY16 LF Revenues & Expenditures

<i>*Dollars in millions</i>	FY14 (SB 29)	FY15 (SB 30)	FY16 (SB 30)
Beginning Balance & Revenues =	\$199.1	\$186.0	\$188.5
<u>Proposed Expenditures:</u>			
Teacher Retirement	\$133.5	\$107.9	\$111.2
Ed. Tech. Grants Debt Service	\$60.1	\$60.9	\$62.5
Direct Loans	\$0.0	\$10.0	\$10.0
Interest Rate Subsidy Grants	\$2.1	\$0.0	\$0.0
School Security Grants Debt Service	\$1.3	\$2.5	\$3.8
Total Expenditures =	\$197.0	\$181.3	\$187.5
Ending Balance =	\$2.1	\$4.7	\$1.0

Note: An amendment proposed by Gov. McAuliffe would increase FY15 revenues by \$25.0 million from additional unclaimed property sales, with \$15.0 million used for additional construction loans and \$10.0 million for teacher retirement in lieu of GFs.



LF Transfers for Teacher Retirement

- The *Constitution of Va.* provides that, “*But so long as the principal of the Fund totals as much as eighty million dollars, the General Assembly may set aside all or any part of additional moneys received into its principal for public school purposes, including the teachers retirement fund.*”
- As of Sept. 30, 2013, the principal of the Literary Fund was \$233.9 million (cash & investments of \$48.3 million plus outstanding loans of \$185.7 million).
- Transfers from the Literary Fund for teacher retirement has been a standard practice since the early 70’s. This action reduces the GF appropriations needed for teacher retirement, making the GFs available for other purposes.



Literary Fund Transfer History - Since FY81

Since FY81, approximately \$2.4 billion (55.6%) has been appropriated for transfer from Literary Fund revenues for teacher retirement or school construction.

Fiscal Year	Total Revenues (millions)	Teacher Retirement Transfer (millions)	School Construction Transfer (millions)	Total Percent Transferred
1981	\$34.1	\$3.3		9.7%
1982	\$41.3	\$8.4		20.3%
1983	\$45.7	\$31.7		69.4%
1984	\$48.4	\$44.4		91.7%
1985	\$51.1	\$10.0		19.6%
1986	\$58.8	\$22.0		37.4%
1987	\$64.4	\$15.0		23.3%
1988	\$67.8	\$32.1		47.3%
1989	\$80.1	\$10.0		12.5%
1990	\$85.1	\$60.0		70.5%
1991	\$102.1	\$36.8		36.0%
1992	\$102.8	\$101.1		98.3%
1993	\$100.9	\$84.5		83.7%
1994	\$101.5	\$93.9		92.5%
1995	\$119.0	\$82.3		69.2%
1996	\$108.6	\$35.0		32.2%
1997	\$124.1	\$41.1		33.1%



Literary Fund Transfer History - Since FY81

Fiscal Year	Total Revenues (millions)	Teacher Retirement Transfer (millions)	School Construction Transfer (millions)	Total Percent Transferred
1998	\$127.0	\$15.5		12.2%
1999	\$140.3	\$7.8	\$8.4	11.5%
2000	\$138.6	\$0	\$10.2	7.4%
2001	\$162.0	\$0	\$8.2	5.1%
2002	\$154.2	\$110.0	\$9.2	77.3%
2003	\$166.5	\$112.8		67.7%
2004	\$209.1	\$118.5		56.7%
2005	\$215.7	\$131.9		61.1%
2006	\$219.3	\$125.9		57.4%
2007	\$220.4	\$116.0		52.6%
2008	\$230.0	\$124.9		54.3%
2009	\$238.2	\$228.7		96.0%
2010	\$240.7	\$195.0		81.0%
2011	\$201.1	\$139.6		69.4%
2012	\$193.5	\$130.1		67.2%
2013	\$210.0	\$140.1		66.7%



Interest Rate Subsidy Program

- Given the level of transfers for teacher retirement, the General Assembly authorized a program of “interest rate subsidies” in order to provide maximum funding for school construction projects beginning in FY89.
- The program funds projects currently on the First Priority Waiting List through the Virginia Public School Authority, but at the lower Literary Fund interest rates (range from 2%-6% depending on Comp. Index).
- Grants are provided from the LF for each project to reduce the principal amount of local debt financed through VPSA so that debt service payments are equivalent to what the school division would pay for a direct LF loan.



Interest Rate Subsidy Program

- Based on the market rates at the time of a VPSA subsidy sale and the interest rate interest charged to localities through the Literary Fund, subsidy programs have funded an average of \$6.10 of projects for every \$1 of Literary Fund revenue paid as grants (see next slide).
- Effective at clearing projects off the First Priority Waiting List; downside is the grants don't revolve back into the LF.
- No subsidy program is authorized in the current or proposed budgets for FY14, FY15, or FY16.



Interest Rate Subsidy Program Projects Funded and Costs to the Literary Fund

Fall of Calendar Year	Value of Projects Funded	Total Cost to Literary Fund	<u>Ratio</u> of Projects Funded to Literary Fund Cost in Grants
1988	\$23,757,500	\$8,446,500	2.8
1990	\$43,405,770	\$11,033,560	3.9
1991	\$106,806,799	\$27,898,774	3.8
1992	\$42,872,037	\$10,611,971	4
1994	\$40,689,574	\$10,069,683	4
1995	\$64,733,441	\$12,266,988	5.3
1996	\$43,675,000	\$8,652,972	5
1997	\$59,795,100	\$9,963,749	6
1998	\$42,978,700	\$5,596,579	7.7
1999	\$51,811,589	\$9,967,509	5.2
2000	\$102,923,607	\$18,824,375	5.5
2001	\$104,628,220	\$11,324,309	9.2
2002	\$51,082,187	\$5,000,000	10.2
2003	\$35,253,087	\$2,921,438	12.1
2004	\$37,352,634	\$4,870,341	7.7
2005	\$133,084,594	\$14,889,363	8.9
2006	\$105,733,159	\$14,524,145	7.3
2007	\$149,896,379	\$16,917,957	8.9
2008	\$54,141,000	\$8,631,106	6.3
2009-2013	0	0	0
Total	\$1,294,620,377	\$212,411,319	6.1



VP SA Ed. Tech. Grants: SOL Web-based Initiative

- 5-year notes issued since FY01 have been dedicated to, “... a computer-based instructional and testing system for the Standards of Learning...”
- School divisions must use the funds to reach: (1) a 5-to-1 student to computer ratio; (2) an Internet-ready local area network capability; and (3) high speed access to the Internet. Primary goal is capacity to support online SOL testing and instruction.
- All schools have met this capacity criteria; however, ongoing funding supports upgrades to school infrastructure and hardware, meeting increased demand for bandwidth from more devices on school networks, and the virtual course graduation requirement.



VP SA Ed. Tech. Grants: SOL Web-based Initiative

- Grant funds provided at \$50,000 per division and \$26,000 per school. A 20% local match is required.
- The grant funds support:
 - hardware and network infrastructure for online SOL testing;
 - online instruction and remediation, including use of electronic texts/materials;
 - leveraging reimbursement from E-rate program funds; and,
 - on-going maintenance funding for division technology programs.
- e-Learning Backpack Initiative grants (beginning FY14) supplement these funds.



VP SA Ed. Tech. Grants: SOL Web-based Initiative

- To date, approximately \$761.1 million in VP SA notes have been issued from 2001-2013 to support the SOL Web-based program.

VP SA Notes Series	Date of Issuance	Total Funds Available to School Divisions
I	May 2001	\$57,248,000
II	May 2002	\$58,286,000
III	May 2003	\$58,390,000
IV	May 2004	\$58,728,000
V	May 2005	\$58,330,000
VI	May 2006	\$58,624,000
VII	May 2007	\$58,728,000
VIII	May 2008	\$59,170,000
IX	May 2009	\$59,274,000
X	May 2010	\$59,404,000
XI	May 2011	\$56,986,000
XII	May 2012	\$58,052,000
XIII	May 2013	\$59,846,000



VPSEA Ed. Tech. Grants: e-Learning Backpack Initiative

- Provides every 9th grade student in a public school that is not fully accredited with a tablet computer, digital content and applications, and access to content creation tools.
- Adopted in the Chapter 806 budget at the 2013 Session, with the first notes issuance in spring 2014.
- Benefits of tablet devices: portable throughout the school day in a wireless environment; digital content optimized for use on tablets; extend learning time and individualize learning for at-risk students.



VPSEA Ed. Tech. Grants: e-Learning Backpack Initiative

- Chapter 806 authorizes schools with a 9th grade that administer SOL tests in spring 2013 and are not fully accredited based on school accreditation ratings for FY14 to participate and receive a grant from the spring 2014 issuance.
- Eligible schools will continue to receive their regular \$26,000 VPSEA educational technology grants.
- 81 schools in 54 divisions eligible to receive FY14 grants (see next slide).



School divisions with school(s) eligible for the eLearning Backpack Initiative Funds

[illegible]

VPSEA Ed. Tech. Grants: e-Learning Backpack Initiative

- SB 30 would continue notes issuances in FY15 and FY16, but hold constant participating schools at least in FY15:
 - schools that administer SOL tests in spring 2014 and are not fully accredited for the second consecutive year based on school accreditation ratings for FY14 and FY15 will qualify to participate in FY15.
 - requiring two consecutive years not fully accredited will keep the number of eligible schools constant in FY14 and FY15 so that debt service is constant for FY15 and FY16.



VP SA Ed. Tech. Grants: e-Learning Backpack Initiative

- In SB 30, schools that administer the SOL tests in spring 2015 and are not fully accredited for the second consecutive year based on school accreditation ratings for FY15 and FY16 will qualify to participate in FY16. Any additional debt service from new schools would begin in FY17.



VPSA Ed. Tech. Grants: e-Learning Backpack Initiative

- Eligible schools receive: (1) \$400 per student reported in 9th grade enrollment to purchase tablet devices; and (2) \$2,400 per qualifying school for two content creation packages for teachers.
- Schools are eligible to receive grants up to four years (for the number of grades in the high school), even if the school achieves full accreditation during that period.
- Schools must select *“a core set of textbooks, applications, and online services for productivity, learning management, collaboration, practice, and assessment to be included on all devices.”*



VPSA Ed. Tech. Grants Funding in SB 29 and 30

- FY14 Funding:
 - SB 29 authorizes \$64.3 million in note proceeds to be issued for the *SOL Web-based* and *e-Learning Backpack* grants. Authorizes funds from the Literary Fund for debt service on outstanding issues.

- FY15 and FY16 Funding:
 - SB 30 authorizes \$70.7 million in FY15 and \$71.0 million in FY16 in note proceeds to be issued for the *SOL Web-based* and *e-Learning Backpack* grants. Authorizes funds from the Literary Fund for debt service on outstanding issues.



School Security Equipment Grants

- Governor's Taskforce on School and Campus Safety recommendations to the 2013 General Assembly included funding for school security upgrades.
- HB 2343 and Chapter 806 budget created the School Security Equipment Grants Program.
- Grants funded with 5-year notes issued by VPSA with debt service paid by the Literary Fund. \$6 million in notes authorized per year with no more than \$30.0 million in notes outstanding over any ongoing five-year period.



School Security Grants - Process

- School divisions, regional programs, and VSDB apply to DOE by Aug. 1 for grants of up to \$100,000 per year for purchase of security equipment in eligible schools.
- Eligible schools are those subject to state accreditation and that report fall membership as well as regional programs and VSDB.
- Grants awarded by DOE on a competitive basis using application criteria developed by DOE/DCJS (e.g., comp. index; age of school; security audit findings; school incidents, etc.).



School Security Grants - Process

- 25% local match required; divisions with a comp. index below 0.2000 can have local match reduced and VSDB exempt from the match requirement.
- Divisions certify they will purchase the equipment within 6 months of receiving the grant; grant funds paid on a reimbursement basis.



School Security Grants - FY14 Grants

- VPSA issued \$6.0 million in notes in spring 2013 to fund the first grants in FY14.
- 553 school applications received; 459 schools (83% applying) in 86 divisions and regional programs awarded funding.
- Most common equipment funded: video monitoring systems, electronic-access controls, two-way radios.
- First year debt service for FY13 issuance is \$1.3 million paid in FY14 from the Literary Fund.



School Security Grants - SB30

- SB 30 authorizes \$6.0 million notes issuance in FY15 and FY16 (for FY16 & FY17 grants) to continue the program. It authorizes \$2.5 million in FY15 and \$3.8 million in FY16 from the Literary Fund for debt service on the FY13-FY15 issuances.



Appendices



VIRGINIA BOARD OF EDUCATION - LITERARY FUND FIRST PRIORITY WAITING LIST - ATTACHMENT A

The following projects have been placed or are recommended for placement on the First Priority Waiting List with the actions as indicated in the last column. Projects recommended for action at this meeting are presented in italics.

Priority	Date Placed on Waiting List	School Division	School	Interest Rate	Amount	Cumulative Total	Action/Status
1	July 2007	Pulaski County	Riverlawn Elementary School	2%	7,500,000	7,500,000	Funding Deferred
2	October 2007	Manassas Park City	Cougar Upper Elementary School	3%	7,500,000	15,000,000	Funding Deferred
3	October 2007	Covington City	Jeter Watson Intermediate School	2%	7,500,000	22,500,000	Funding Deferred
4	October 2007	Covington City	Edgemont Primary School	2%	7,500,000	30,000,000	Funding Deferred
5	October 2007	Prince George County	North Elementary School	2%	7,500,000	37,500,000	Funding Deferred
6	July 2008	Petersburg City	Walnut Hill Elementary School	2%	5,818,691	43,318,691	Funding Deferred
7	July 2008	Norton City	Norton Elementary School	3%	7,500,000	50,818,691	Funding Deferred
8	July 2008	Northampton County	Northampton High School	3%	7,500,000	58,318,691	Funding Deferred
9	July 2008	Lee County	Dryden Elementary School	2%	2,300,000	60,618,691	Funding Deferred
10	July 2008	Grayson County	West Grayson Elementary School	2%	7,500,000	68,118,691	Funding Deferred
11	October 2008	Pittsylvania County	Tunstall High School	2%	7,500,000	75,618,691	Funding Deferred
12	October 2008	Pittsylvania County	Chatham High School	2%	7,500,000	83,118,691	Funding Deferred
13	October 2008	Wythe County	Rural Retreat High School	2%	7,500,000	90,618,691	Funding Deferred
14	October 2008	Wythe County	Rural Retreat Middle School	2%	2,600,000	93,218,691	Funding Deferred
15	January 2009	Warren County	Luray Avenue Middle School	3%	7,500,000	100,718,691	Funding Deferred
16	January 2009	Grayson County	Fries Elementary School	2%	7,500,000	108,218,691	Funding Deferred
17	April 2009	Giles County	Giles County Technology Center	2%	7,500,000	115,718,691	Funding Deferred
18	April 2009	Giles County	Eastern Elementary/Middle School	2%	7,500,000	123,218,691	Funding Deferred
19	April 2009	Nottoway County	Blackstone Primary School	2%	666,667	123,885,358	Funding Deferred
20	April 2009	Nottoway County	Crewe Primary School	2%	666,667	124,552,025	Funding Deferred
21	April 2009	Nottoway County	Burkeville Elementary School	2%	666,666	125,218,691	Funding Deferred
22	April 2009	Fluvanna County ¹	Fluvanna County High School	3%	2,670,000	127,888,691	Funding Deferred
23	July 2009	Virginia Beach City	Great Neck Middle School	3%	7,500,000	135,388,691	Funding Deferred
24	October 2009	Washington County ²	Patrick Henry High School	3%	404,574	135,793,265	Funding Deferred
25	October 2009	Washington County ²	Meadowview Elementary School	3%	468,707	136,261,972	Funding Deferred
26	October 2009	Washington County ²	Wallace Middle School	3%	72,181	136,334,153	Funding Deferred
27	October 2009	Washington County ²	Glade Spring Middle School	3%	510,960	136,845,113	Funding Deferred



VIRGINIA BOARD OF EDUCATION - LITERARY FUND FIRST PRIORITY WAITING LIST - ATTACHMENT A

The following projects have been placed or are recommended for placement on the First Priority Waiting List with the actions as indicated in the last column. Projects recommended for action at this meeting are presented in italics.

Priority	Date Placed on	School Division	School	Interest		Cumulative		Action/Status
	Waiting List			Rate	Amount	Total		
28	October 2009	Washington County ²	William N. Neff Center	3%	1,183,651	138,028,764		Funding Deferred
29	October 2010	Buckingham County	Dillwyn Lower Elementary School	2%	7,500,000	145,528,764		Funding Deferred
30	October 2010	Buckingham County	Dillwyn Upper Elementary School	2%	7,500,000	153,028,764		Funding Deferred
31	October 2011	Caroline County ³	Bowling Green Elementary School	3%	1,928,819	154,957,582		Funding Deferred
32	October 2011	Smyth County ³	New Elementary School	2%	6,428,819	161,386,402		Funding Deferred
33	October 2011	Smyth County ³	Marion Primary School	2%	3,928,819	165,315,221		Funding Deferred
34	January 2012	Sussex County	Sussex Central Elementary School	3%	5,000,000	170,315,221		Funding Deferred
35	April 2012	Wise County	Appalachia Elementary School	2%	1,500,000	171,815,221		Funding Deferred
36	July 2012	Isle of Wight County	Windsor Middle School	3%	7,500,000	179,315,221		Funding Deferred
37	July 2012	Wise County	Union High School	2%	7,500,000	186,815,221		Funding Deferred
38	July 2012	Wise County	Eastside High School	2%	7,500,000	194,315,221		Funding Deferred
39	October 2012	Dickenson County	Combined Middle/High School	2%	7,500,000	201,815,221		Funding Deferred
40	January 2013	Town of West Point	West Point Middle/High School	2%	3,320,985	205,136,206		Funding Deferred
41	January 2013	Town of West Point	West Point Elementary School	2%	2,390,440	207,526,646		Funding Deferred

New projects to be added with funding deferred until funds are approved for release by separate action of the Board of Education

NO PROJECTS

¹Literary Fund application amount reduced by the amount that was funded with the issuance of Series 2009-1 VPSA/Qualified School Construction Bonds on November 13, 2009.

²Literary Fund application amount reduced by the amount that was funded with the issuance of Series 2010-1 VPSA/Qualified School Construction Bonds on June 28, 2010.

³Literary Fund application amount reduced by the amount that was funded with the issuance of Series 2012-1 VPSA/Qualified School Construction Bonds on October 31, 2012.

January, 2014



Terms of a Literary Fund Loan

- Current Board of Education regulations and *Code of Va.* provisions provide that:
 - Literary Fund loans may be offered as a source of low-interest loans for the purpose of erecting, altering, or enlarging school buildings;
 - The maximum loan amount available for a single project is \$7.5 million; the minimum loan amount is \$500;
 - The length of the loan may run from five to 30 years, but the majority of loans are made for 20 years; and
 - The interest rate is based on the school division's composite index of local ability-to-pay.



Terms of a Literary Fund Loan

- Per Board of Education regulations, the interest rates on loans are as follows:

Composite Index Range	Interest Rate on Loan
0.2999 and below	2%
From 0.3000 to 0.3999	3%
From 0.4000 to 0.4999	4%
From 0.5000 to 0.5999	5%
0.6000 and above	6%

- Loan applications are placed on a Literary Fund Waiting List in order of approval by Board of Education.



VPASA Educational Technology Grants – Initial Grants in the 90's

- Beginning in 1989, Literary Fund revenues were used as a mechanism to finance the purchase of computers and related technology.
- Technology initiatives have been funded and/or authorized through the issuance of five-year equipment notes through the Virginia Public School Authority with the debt service paid by the Literary Fund.
- Throughout most of the late 1990s, initiatives focused on three main components: (1) retrofitting and upgrading existing school buildings to use educational technology, (2) providing network ready multimedia microcomputers for use at the classroom level, and (3) providing a 5 to 1 ratio of pupils to network-ready computers.



VPSA Educational Technology Grants - Initial Grants in the 90's

- Approximately \$232.9 million in notes were issued during the early initiatives (1989-2000).

Fiscal Year	Technology Funds Available to School Divisions
1989	\$10,445,000
1990	0
1991	\$7,000,000
1992	0
1993	0
1994	0
1995	\$46,205,000
1996	0
1997	\$55,910,000
1998	\$46,925,000
1999	0
2000	\$66,380,000

